



## LEADERSHIP IN THE BOARDROOM *with Eleanor Bloxham* Followers and Leaders: Building Trust

Did you see the best film of 2009? In my opinion, that film was “The Warning”.

The reason “The Warning” is such a great film is that (a) it is not fiction and provides insight into the historic economic events shaping our world since the late 1990s and (b) even if it were fiction, the writer could not have done a better job telling the tale of human nature.

In this tale, Ms. Born, a woman who ran the CFTC for a short period of time, is the leader. Messrs. Greenspan, Summers, Rubin and Levitt, all household names, end up being the followers, followers in thought and in understanding, which unfortunately had negative consequences worldwide. If you didn’t see the film and want to understand the forces at work, it is still available for viewing free of charge at <http://www.pbs.org/wgbh/pages/frontline/warning/view/>

Part of what causes the problem for the four tragic protagonists in the film is their almost single minded grasping on to the status quo. (This is a frequent governance issue when headlines hit: the board failed to move quickly enough.)

We can assign motivation to the protagonists, but whatever the motivations may be, they created blinders. Of the followers in the film, Mr. Levitt acts with tremendous courage in being willing to go on camera to discuss the events and what he learned.

In the film Mr. Levitt refers to what I call in my talks on governance as the “classic governance problem”, a recurring trap that regulators, boards and companies must avoid. This classic problem is making decisions based on “who” rather than “what”.

In the film, Mr. Levitt says he wished he had known Ms. Born better. Mr. Levitt’s affiliations were with the others, not with Ms. Born – and that as the film reveals, swayed his opinion to stand with them and against her.

When regulators and legislators make decisions based on “who” said the information (and the external power and influence of the speaker) rather than “what” is being advocated, the democratic process is not served and the outcome will not create the best result. (We are all far too familiar with this issue with respect to lobbyists, which causes a breakdown in trust.)

This decision making based on affiliation rather than merit I call the classic governance problem because it *is* the quintessential governance issue and it applies full force to the boardroom.

In the spirit of good governance, boards are called to make decisions based on their merit and their impacts on stakeholders, not based on “who” came up with the idea.

Although most boards are supportive of management, they are called to look past who is presenting the information to evaluate the information with respect to its impacts on those not physically represented in the boardroom. (Legislators must do the same.)

This is and should be the governing (i.e. golden) rule for both governments and boards seeking to build trust.

Going forward, where will the exercise of leadership come from in financial regulation and governance?

In an opinion piece in the Financial Times, Messrs. Donaldson and Levitt state, “The US must be among the first to develop cutting-edge systemic risk controls, commensurate with our leading role in the markets and the global economy. Yet US policymakers seem mired in a status quo approach to systemic-risk supervision.”<sup>1</sup>

Over the past couple of years the US has been following in governance as governance ideas seem to travel *from* the UK and Europe (and not the other way round). Over the last year or so, since the November G20 meeting at the Bush White House summit in 2008, the international scope of financial regulation has taken new shape.

In November 2009, the Financial Stability Board identified thirty institutions internationally who represent the greatest systemic risk to the world’s economies, including both insurance firms and banks.

World leaders are charting a course to ensure that the governance and regulatory failures we have witnessed are addressed by setting up supervisory “colleges” and asking these large institutions to draft, within the next six to nine months, “living wills” which would outline how the firms would recover and resolve post crisis.<sup>2</sup>

Though drafting of these plans is being required of the thirty institutions (and is being resisted by some), such an exercise is a worthwhile one for any board to undertake. It would be a boon for shareholders and creditors to know that such a plan was in place, and a healthy conversation for boards to have with investors.

Every board will need to decide out of the crisis whether they will be a leader or a follower. The

challenge for regulators and boards is not all that different. It’s a human conundrum and a choice to make.

As the film “The Warning” shows, followers (in thought, understanding and action) can and do create negative ripple effects that can have tremendous consequences far beyond what they may ordinarily recognize. They can destroy trust and the lives of many people they will never know.

Will you be a leader even if that means you stand alone? (Will your board?)

About the Author:



Eleanor Bloxham is a recognized authority on valuation and governance who frequently writes on the impact of public policy on companies and the economy. She is the founder of The Value Alliance, an independent governance advisory firm, which provides board evaluation, advisory and education services to boards of directors in the US and abroad. The author of two books, numerous articles and a video series called *Conversations that Build a Bridge of Trust*<sup>TM</sup>, she publishes with John M. Nash the complimentary publication *The Corporate Governance Alliance Digest*. She may be reached at [ebloxham@thevaluealliance.com](mailto:ebloxham@thevaluealliance.com).

Footnotes:

(1) “Tackling systemic risk is no job for the status quo”, Financial Times, William Donaldson and Arthur Levitt, November 19, 2009

(2) “Thirty financial groups on systemic risk list”, Financial Times, Patrick Jenkins and Paul J Davies, November 29, 2009